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Cote d'Ivoire

Cocoa

New Marketing System For Cocoa and Coffee

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Report Highlights:
Cote d'Ivoire liberalized the marketing of coffee and cocoa in 1998 and 1999 respectively. The collapse of world market price of these commodities coincided with the liberalized market. Imbued with the idea that the market liberalization led to this market collapse, the Government hired the HSBC/Equator Bank to do a marketing study. Based on its recommendation, the Government introduced a new marketing system at a September 27-28 Seminar in Abidjan.

Includes PSD changes: No
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Executive Summary

Cote d'Ivoire liberalized the marketing of coffee and cocoa in 1998 and 1999 respectively, in line with IMF and World Bank recommendations under the Agricultural Structural Adjustment Program. From independence until that time, coffee and cocoa marketing had been controlled by the CAISTAB (the government agency responsible for coffee and cocoa marketing).

World market prices for cocoa and coffee started falling at the time of liberalization and have worsened since then. However, Ivorian farmers have been earning higher proportions of world market prices than before. But, since the world market prices had fallen so steeply the actual farm gate prices were lower than the years immediately preceding liberalization. Small Ivorian exporters also found themselves squeezed out the market by the large multinationals.

To correct these problems supposedly tied to liberalization, the Government, in early 2001, hired HSBC/Equator Bank to study the market and propose a new marketing system. HSBC made four proposals two of which involved a return to price stabilization (fixed prices) of one sort or another.

In October 2000, the government set up the ARCC (Coffee and Cocoa Regulatory Authority) to fill the vacuum created by the dissolution of the Nouvelle Caistab. The ARCC is an independent public agency with administrative control and regulation of the activities of the cocoa and coffee sector and its operators. It is suppose to be the central point around which to build the new organizational set up of the cocoa and coffee sector.

The government decreed the BCC (Bourse du Café et du Cacao) to be the marketing wing in this new cocoa and coffee scheme. It was established by ordinance No. 2000-583 of August 17, 2000 and modified by Ordinance No. 2001-46 of January 31, 2001. Its objective is to regulate the marketing and export of coffee and cocoa. The BCC board of directors is two-thirds grower and one-third exporter/processor.

Using the HSBC's recommendations a tripartite committee(government, farmer and exporter/processor representatives) proposed a marketing system which looked very similar to that under the old CAISTAB. The Government introduced the new cocoa and coffee marketing system at a September 27-28 seminar in Abidjan. Under the new system, the BCC will set a minimum guarantee farm gate price at the beginning of each trimester. It will also establish prices for the collection and transport (the so-called bareme) of cocoa and coffee from the bush to

the ports of Abidjan and San Pedro. A Contingency Fund (Reserve de Prudence) is to be established in order to maintain a stabilized price during the trimester.

Exchange Rate: U.S. $1 = 726 F CFA on October 18, 2001.

Overview

Cote d'Ivoire liberalized the marketing of coffee and cocoa in 1998 and 1999 respectively in line with IMF and World Bank recommendation under Agricultural Structural Adjustment Program. From independence until that time, coffee and cocoa marketing had been controlled by the CAISTAB (the government agency responsible for coffee and cocoa marketing). The CAISTAB set an uniform farm gate price for these commodities throughout the country; fixed allowable transaction costs known as bareme - primarily collection and transportation - for getting the commodities from farms to the port; and essentially sold forward on the commodities' markets by selling export permits (which denoted the date that a certain quantity of cocoa or coffee could be exported) through an auction system which fixed export quantities for 12-18 months into the future. The CAISTAB also approved all export licenses. It wielded enormous power and was completely non-transparent in its operations and budgeting. In addition, it failed in its primary task of stabilizing prices for cocoa and coffee farmers, as prices were never fixed higher than the world market during period of low prices, but were below world market prices in period of high prices. It should be noted that the CAISTAB operated inefficiently. In its final years, many exporters which held export permits through which they made export contracts defaulted on those contracts because they could not purchase sufficient quantity of commodities to fulfil said contracts.

World market price for cocoa and coffee started falling at the time of liberalization and have worsened since then. Ivorian farmers have been earning higher proportion of world market prices than before. However, since the world market prices had fallen so steeply the actual farm gate prices were lower than the years immediately preceding liberalization. At the same time, small Ivorian exporters found themselves squeezed out the market by the large, multinationals, including American firms Cargill and Archer Daniels Midland(ADM) which aggressively entered the Ivorian export market. The Ivorian companies were disadvantaged for two main reasons: (1) they do not have the capital resources available to compete for purchasing of commodities; and (2) they do not have experience in using forward contracting on international exchanges to hedge price risk. Under the CAISTAB, they worked in a more or less fixed cost market and therefore had no reason to enter the hurly-burly of international commodity markets in London and New York.

Declining farmer income due to reduced cocoa and coffee exports hurt not only the farmers but the government as export tax revenue decreased. This decrease more or less coincided with the Christmas 1999 coup d'etat, a subsequent downturn in the domestic economy and a freezing of bilateral and multilateral donor support to the Government. During the military regime, the current Minister of Economic Infrastructure, Patrick Achi, was tasked with finding solution to problem brought by the free market. Mr Achi's take at that time was that growers wanted to fixed farm gate prices. They were not used to the constant price swings in farm gate prices tied directly to the international markets. Further, he supported the position of many Ivorian analysts that the loss of access to forward sales forced Ivorian cocoa into spot sales which depressed the market. This development spawned several groups which competed for leadership to represent farmers and to agitate for a return to a stabilized market system managed by the private sector (as the World Bank and the IMF were against any government intervention in the marketing system).

Initially, the FIPCC (Federation Ivoirienne de Producteurs du Café et du Cacao), which had the subtle support of the government, claimed to be the main farmer cooperative group. The situation changed in favor of ANAPROCI (Association Nationale des Producteurs du Café et du Cacao de la Cote d'Ivoire) after the new civilian government took power in October 2000. These so-called farmers' groups are believed to be manipulated by behind-the-scene players to disadvantage the farmers in favor of Abidjan-based interests.

The Marketing Structures

The government dissolved the CAISTAB in 1999, and replaced it with the Nouvelle CAISTAB but with a reduced mandate which included export registration, monitoring export sales, quality control and record keeping. However, the Nouvelle CAISTAB was in turn dissolved in March 2000, by the military government, because of its inability to function as required. On October 2000, the government set up the ARCC (Coffee and Cocoa Regulatory Authority) to fill the vacuum created by the dissolution of the Nouvelle Caistab.

Cocoa and Coffee Regulatory Authority (ARCC)

The ARCC is an independent public agency with administrative control and regulation of the activities of the cocoa and coffee sector and its operators. It is supposed to be the central point around which to build the new organizational set up of the cocoa and coffee sector. Its responsibilities includes approving exporters and purchasing agencies, arbitrating conflicts, implementing international agreements, monitoring and implementing agreement with processing firms, making proposals to the government on improving and coordinating the management of the coffee and cocoa sector and liaise with the BCC (Bourse du Café et du Cacao) for establishing a minimum guaranteed producer price, undertaking harvest forecast; and maintaining statistics. In 2000/2001 marketing year, ARCC claimed to have already authorized 44 exporters of which four were cooperatives. These have been approved by an Inter-Ministerial committee under the Prime Minister.

Bourse du Café et du Cacao (BCC)

The BCC is the marketing wing in the new organizational structure for the cocoa and coffee sector. It was established by ordinance No. 2000-583 of August 17, 2000 and modified by Ordinance No. 2001-46 of January 31, 2001. Its objective is to regulate the marketing and export of coffee and cocoa. It is also to set up a specialized agency to oversee the mechanism of financial regulation and risk management. The BCC consists of five organs: the General Assembly, Administrative Council, Supervision Council, Director General and the financial regulation and risk management.

The General Assembly comprises 48 members with two-thirds appointed by farmers and a third by exporters. The same proportion is attributed for 12 members in the Administrative Council. The Financial and Risk Management organ is constituted of 10 members with five appointed by producers, four by exporters and the last member to be appointed jointly. It is tasked to maintain the financial equilibrium of the sector and to be directed by a President and two vice-Presidents.

The responsibilities of the BCC include the following: to define a mechanism of guarantee of a minimum revenue and remunerative price to producers; to improve producers' revenue; to set up mechanism of export sale; to determine the procedure, condition and manner of allocation of export rights; register export sale contracts; centralize and coordinate coffee and cocoa export operations; to liaise with ARCC to forecast the harvest and maintain statistics; to monitor the export market, stocks and declaration of purchases of commodity upcountry; to monitor also the agreement with processing firms; to promote small and middle level exporters and cooperatives; and to promote the quality and the Ivorian label. Concerning its financial and risk management mission, it is to determine and publish a minimum guaranteed farm gate price, screen export contracts, monitor engagements undertaken by exporters, financial regulation of the export mechanism and management of the treasury, verify guarantees from request of export authorization and approval and communicate to ARCC information on violation by exporters of their engagements.

Development of the Marketing System

Following the wrangling as to whether fall in world market price of coffee and cocoa was due to the market liberalization and that a stabilized market and forward sale could halt the fall in world market price, the Government, in early 2001, hired HSBC/Equator Bank to do a study on the market and propose a satisfactory market system. The HSBC made four proposals two of which involved a return to price stabilization (fixed prices) of one sort or another. A tripartite committee was formed with government, farmer and exporter representatives to choose the best new marketing system. The option chosen is a recast of the former government stabilization board system. It includes the setting up of minimum farm gate price at the beginning of each season; the refund of the loss in export sales by the board to exporters if prices fall; and repayment of the gain by exporters to the board in case of price rise. Quota was to be allocated to exporters according to their financial position with 25 percent of the crop to be reserved to small exporters and cooperatives, but this aspect of the new system was eliminated from the final scheme at the insistence of large exporters.

Taxation on Cocoa

On February 2001, the Government imposed a new 'technical' tax on cocoa exports of 35 F CFA/kg and coffee exports of 10 F CFA/kg. The fund generated from this tax was to be used to constitute an Agricultural Development Fund(FDA). The total fund generated by September 30, 2001 was 9 billion F CFA. About 1.2 billion F CFA is being used as credit to the BCC for its setup and 1.2 billion is to be used to finance the purchase of bags for cocoa and coffee marketing.

On March 16, 2001, the Government suddenly increased all export taxes(DUS) on cocoa and cocoa products. It also unilaterally abrogated previously existing agreements with Cargill which had reduced export taxes as an inducement to invest in cocoa processing. The export tax on bulk cocoa increased from 125 to 200 F CFA per kilogram. The increases for processed cocoa products were much more severe, on the order of 100 percent. The purpose for this move was never articulated, but it essentially increased Government revenue at a time when cash was scarce. Exporters and processors fought this move as prejudicial to their investments in Cote d'Ivoire. The IMF waded in, castigating the Government for the action which the IMF believed would most directly disadvantage farmers as exporters and processors would reduce farmgate prices in order to pay the higher taxes. After much back and forth, the export tax for cocoa and products was fixed at 20 percent of FOB price. Currently, the export tax of bulk cocoa has been put at 160 F CFA/kg. However, Cargill's agreement remained nullified (while Cargill believes other processors continued to receive export tax breaks).

The New Marketing System

The Government of Cote d'Ivoire introduced the new cocoa and coffee marketing system at a September 27-28 seminar in Abidjan. Under the new system, the BCC will set a minimum guarantee farm gate price at the beginning of each trimester. It will also establish prices for the collection and transport (the so-called bareme) of cocoa and coffee from the bush to the ports of Abidjan and San Pedro. A Contingency Fund (Reserve de Prudence) is to be established and to be used to maintain a stabilized price during the trimester. There will be a so-called export right but it has not been defined and cannot be applied. The export right is the lynchpin of the new marketing system in that it has the potential to tilt the balance towards a more controlled system, less efficient marketing system. In other words, it is intended as a quota system, allocating a certain amount of product to eligible exporters. It was meant to prevent any exporter from having a dominant position on the market.

For the marketing 2001/2002 which started on October 2, the BCC has announced the following price schedules for cocoa marketing:

Guarantee Minimum Producer Price for Cocoa	325 F CFA/kg
Collection and Transport	20 F CFA/kg
BCC check-off (support payment)	6.2 F CFA/kg
ARCC Check-off (support payment)	2.96 F CFA/kg
Bag fee	3.5 F CFA/kg
Agricultural Development Fund	35 F CFA/kg
Provident Fund	41 F CFA/kg
Export tax	160 F CFA/kg
Other Fees	18 F CFA/kg

Total taxes and fees on bulk cocoa exports are 266 F CFA/kg. It means that farmers are losing 266,000 F CFA/MT in revenue each year to support market establishment in Abidjan which is supposedly set up to protect them. In other words, Abidjan establishment will extract about 320 billion F CFA(assuming a crop of 1.2 million MT) from farmers. Exporters and processors pay these fees and taxes but pass them on to farmers in the form of lower prices. Neighboring Ghana is paying its farmers at equivalent of 430 F CFA/kg while other countries such as Indonesia and Cameroon which have a more liberalized market are paying even higher. Despite the suspension of export rights in the new marketing system, exporters find the new system clumsy and unsatisfactory, and four of the largest exporters have already withdrawn their membership from the BCC. Meanwhile, the Ministry of Agriculture has expressed its reservation on the high level of taxes and by decree on October 17, has ordered provisional transfer of revenues collected to the ARCC. The ANAPROCI is resisting this decision because it regards the Minister's decision as an interference which is a threat to BCC's independence. It has called on farmers and BCC to be on strike. October 18, the Government 'temporarily' disbanded the BCC, leaving the ARCC to manage all marketing functions.

Effect on Exports

To date, no new crop beans have been exported nor processed. Industry contact predict exports will begin by October 22. But ANAPROCI is threatening a country-wide marketing strike. Post does not believe ANAPROCI can muster the forces needed to make good its threat. However, it is not clear that cocoa exports will start flowing normally until this dispute is solved. Already exporters and processors are losing money as they cannot meet early season export contracts.